



AN ECONOMIC SNAPSHOT

Overview

The structure of the Kenyan economy has undergone significant changes in the last two decades. In 1980, agriculture accounted for 33 percent of Gross Domestic Product (GDP), manufacturing 13 percent and services 47 percent. By 2003, agriculture declined, falling to 16 percent of GDP, while manufacturing and services rose to a little over 27 percent and 65 percent, respectively.

The economic gains Kenya achieved in the years following independence in 1963 have been greatly weakened in the last decade. For approximately three decades, growth rates had been positive and brisk, in excess of 4 percent per year. By 1990, GDP growth fell to 1.4 percent. From 1994-1996, Kenya sustained a growth rate of about 4 percent per year; but, in 2000 a prolonged drought, in combination with inadequate infrastructure, low agricultural productivity, poor export performance, and weak governance resulted in negative economic growth (IMF 2003). Since then, more favorable weather conditions and a return to previous levels of agricultural production have slightly improved the Kenyan economic performance, with recorded GDP growth rates of one percent in 2003.

Table 1: Key Economic Indicators

	1990	2000	2003
Economy			
GDP per Capita (US\$)	336	347	393
GDP growth rate (year on year)	1.4	-0.2	1.0
Value added in agriculture (% of GDP)	29	20	16
Value added in manufacturing (% of GDP)	19	19	27
Value added in services (% of GDP)	52	62	65
X/M (%)	8	.7	9
Current Account Balance (millions of US\$)	-527	-204	84
Debt service as a % of exports	35	19	14
People			
Total Fertility Rate	5.6	4.4	4.2
Under 5 mortality rate	97	120	122
Male Adult Literacy Rate	81	89	90
Female Adult Literacy Rate	61	76	79
Poverty rate (Headcount)	40	52	--
Population (millions)	23.4	30.1	31.3

Source: World Development Indicators

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Trade Timeline

Since 1990, Kenya has liberalized its trading regime by dismantling its quantitative import restrictions and price controls on major products (WTO 2000). While the number of tariff bands has been reduced from 8 in 1994/95 to 5 in 1999/00 and the maximum ad valorem rates lowered from 170 percent to 35 percent in 1996, tariffs remain Kenya's main trade policy instrument (KIPPRA 2002). In 1995, Kenya joined the World Trade Organization (WTO). The Kenyan government is in the process of amending national laws to comply with trade remedies available under WTO rules.

Poverty Rates

Poverty rates have risen over the last decade from approximately 40 percent in 1994 to 52 percent in 2000 (World Bank 2002). Between 1996 and 1999, the number of people living under the poverty line rose from 11.5 million to about 15 million. In 2001, the Poverty Reduction Strategy Paper attributed low economic performance, low agricultural productivity, landlessness, insecurity, unemployment, low wages, and gender inequalities, as causes and correlates of Kenyan poverty (HDR 2001). Furthermore, pervasive corruption has only exacerbated the pervading income inequalities. On average, corruption costs the Kenyan government 1 billion dollars a year, which is approximately one fourth of government spending (BBC 2003).

Labor Market

Kenyan wage employment is disproportionately concentrated in the services sector: services absorb 75 percent of total female wage labor and 57 percent total male wage labor. Manufacturing absorbs 10 and 23 percent of wage employed women and men, while the agriculture sector accounts for 15 and 20 percent respectively. An estimated 500,000 Kenyans enter the labor force annually; yet, from 1998 to 2002 wage employment has only increased by about 2 percent.

Table 2: Wage Employment by Sector in 2004 in percentage

	Percent of Each Sector		Percent of Labor Force		Total (1000s)
	Women	Men	Women	Men	
Agriculture	25	75	15	19	321
Manufacturing	15	85	10	24	346
Services	35	65	75	57	1,097
Total	30	70	100	100	1,764

Notes: Persons aged 15 and older. Manufacturing includes manufacturing and industry.

Source: Kenya Economic Survey 2005

The composition of the Kenyan labor force has undergone significant change in recent years. Due to government downsizing and retrenchment of large private sector and foreign owned firms, the share of wage employment as a percentage of total employment declined dramatically from 78 percent in 1988 to 28 percent in 2000, while the share of the informal sector rose correspondingly. Moreover, 2004 estimates suggest that of the 11.4 million person labor force only 1.8 million are employed formally; thus, indicating a further decline in the share of wage employment to only 15 percent of the total employment. The International Labour Organization (ILO) estimates that approximately 70 percent of women and 40 percent of men now work in the informal economy (ILO 2002).

Micro and small enterprises (MSEs) are the most important source of informal employment. In 1999, MSEs accounted for 2.3 million jobs; by 2002, the sector employed 5.1 million persons, accounting for 74 percent of total employment. Men account for 60 percent of total MSE employment, while women account for 40 percent. In 2002, recognizing the importance of the sector, the government created a new MSE policy framework; it places MSE development in line with the national economic growth goals, employment creation, income generation, and poverty reduction (ILO 2005).

The labor market in Kenya is sex segregated—men and women are not distributed evenly across all sectors and occupations in proportion to their participation in the total labor force. The Duncan Index

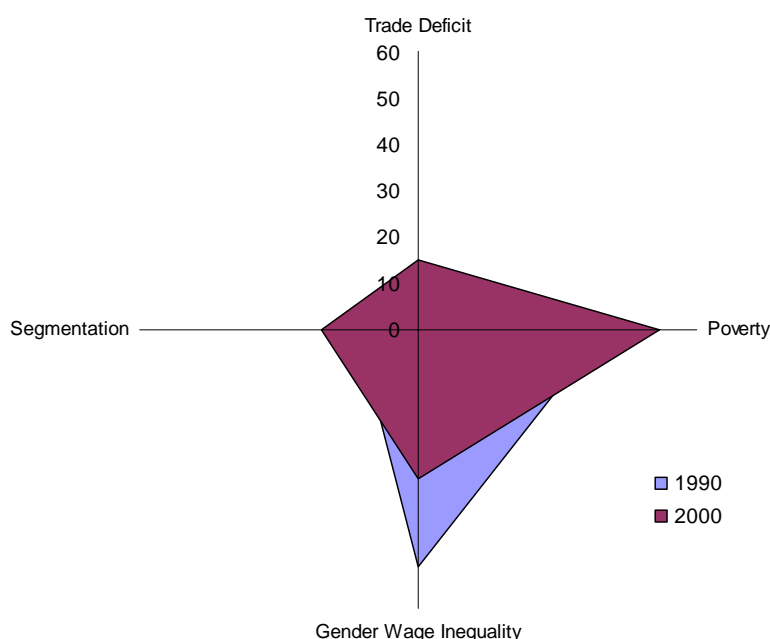
calculated for 3 sectors,¹ and used to measure labor market segmentation by sex was 13 percent in 1990, indicating a moderate level of segmentation. In 2000, it had risen to 21 percent—registering a rise of over 60 percent in sex segmentation over the decade of the 90s (See Figure 1).²

Between 1994 and 1999 income inequality in Kenya grew worse. In 1999, Kenya ranked among the five most unequal countries in the world, with the wealthiest 10 percent controlling approximately 42 percent of the total income and the poorest 20 percent controlling only 1.5 percent (SID 2004). Although notable gender wage gaps remain, the ratio of urban women's wages to those of urban men has improved. In 1990, urban women earned approximately 49 percent as much as urban men; by 2000, women's wages had risen to 68 percent of men's wages.

Development Diamond

The Development Diamond, Figure 1, tracks some of the economic indicators analyzed above by mapping poverty, labor market segmentation, trade, and wage rate indicators for Kenya over a 10 year period.³ While improvements in gender wage inequality are visible, indicators for the trade deficit, poverty, and labor market segmentation have grown worse. This suggests the need for greater policy and programmatic interventions to ensure that poor women also benefit from economic and trade expansion activities.

Figure 1: Development Diamond, in percent



¹ The Duncan Index is $D = 100 * \frac{1}{2} \sum_{i=1}^N |f_i - m_i|$. Where $i = (1, 2, \dots, N)$ is the total number of sectors, industries or occupations and f_i and m_i are the sectoral employment ratios of men and women to their respective labor force. Typically 10 sectors are used; however, due to insufficient data only 3 sectors were used defined by their 2 digit ISIC codes. Segmentation is invariant to the number of sectors.

² The Duncan Index of dissimilarity, ranging from 0 to 100, can be used to measure labor market segmentation by sex. An index of 0 indicates that the sectors or occupations are not sex segregated and women and men are distributed across these sectors and occupations in proportion to their participation in the total labor force. An index of 100 indicates that men and women are in entirely different sectors and occupations.

³ The trade deficit is measured as $(M-X)/(X+M)$, and gender wage inequality as the average gender wage gap as a percentage of male wages $(W_m - W_f)/W_m$.

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Data Sources

National

Kenya Central Bureau of Statistics
<http://www.cbs.go.ke>

Bilateral

CIA World Factbook
<http://www.cia.gov/cia/publications/factbook/>
International Database, US Census Bureau
<http://www.census.gov/ipc/www/idbnew.html>

Multilateral

International Financial Statistics Yearbook, International Monetary Fund
ILO Labor Statistics
<http://laborsta.ilo.org/>
Human Development Report
<http://hdr.undp.org/statistics/data/indic/>

Non Governmental

Global Policy Network
<http://www.globalpolicynetwork.org/>
Globalis
<http://globalis.gvu.unu.edu/>